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The Labor Aspect of Reconstruction

By CLARENCE M. WOOLLEY

War Trade Board

FOR nearly two years the mind and muscle of America have been dedicated to war, but the dominant note rising above the clash of combat has been unselfishness. The desire to serve has been the usual, not the exceptional, attitude.

Our participation in the war represents an altruism rarely manifested by nations; however, this devotion to the well-being of others is not expended alone on far away objects but continues to be demonstrated in every phase of our social and industrial life. Out of this experience has arisen a finer sentiment of human relationship, a realization of the interests that are common to all mankind, and a sense of responsibility to each of those who make up the nation.

Men of business engrossed in their particular objects seldom find occasion to voice the idealism which they express in their work. In a true sense, the idealist is practical in that his vision permits him to make use of realities sooner than the man who pursues material advantage so closely that he dare not raise his eyes from the ground to catch a glimpse of a newer and better world. At no other time have we so much needed this spirit or desire to look out upon the distant horizon.

The crisp sentence uttered some months ago with respect to making the world safe for democracy has caught the popular ear and conquered the imagination of all men, and is the symbol of that force which will make for an advancing civilization. Consciously or unconsciously the world has revalued its commodities. At the same time it has revalued the human asset. In this process of appraisal our attention has been attracted more by material than by spiritual considerations. All right-thinking men would be pleased to see these new values permanently replace the old standards. It is well-nigh certain, however, that material valuations cannot be stabilized until the social valuations have been tangibly expressed in the policy of those who are called upon to direct the larger affairs of the country.

PRE-WAR PROGRESS FOR THE BETTERMENT OF WORKERS

In striving to improve present conditions we should not close our eyes to the progress already made. The decade preceding the war was rife with censure and criticism of large scale industrial operations, but during that period, unknown to the critic or to the public in general, the progress involved in this economic movement made for the betterment of the worker in the same degree that it gave security and advantage to investments. Information has not kept pace with reformation; not only had this process been associated with substantial increases in wages but there had been evolved by many of the larger corporations employment departments which contributed to the well-being and security of the men. The desire to accord just treatment and to protect them against the petty tyranny of the oldtime boss, transferred the employment process from the shop foreman to the trained and sympathetic specialist, who was the only authority empowered to discharge as well as to employ. This assured fair treatment when disputes arose. The employment official gave to each worker a hearing and before the final act of dismissal was consummated not only the facts but the equities involved had become the deciding factor. If it were found that a man had been assigned to work for which he was inept, he was offered an opportunity to make good in some other capacity.

This method gave to each worker the assurance of steady employment so long as he performed his task with reasonable skill and diligence. His term of service was not dependent upon the caprice of his immediate superior. It fostered in the mind of the worker a conviction of justice and security. Aside from the fundamental feature of hiring and discharging, the employment department contained medical, dental and first-aid subdivisions, to which the worker had ready access and where he was assured of sympathetic and helpful attention.

The welfare work in this connection was not confined to the activities described but reached out to the homes of the workers. If a man did not report for work in the morning, a messenger was promptly despatched to his home to ascertain the facts which prevented his appearance. If he were detained by illness, or if his wife or children were sick, the report was brought back to the employment department, and the medical director visited the

home to ascertain the need for assistance, which was promptly accorded. If the worker were overcome by sickness which required a change of surroundings, some of the larger industrial institutions have equipped themselves with sanitariums to which free access is offered for employes, and where they are gratuitously maintained.

At first glance it might be inferred that the worker would resent such attention, but experience has overwhelmingly proved that where there is no desire to be inquisitorial or dictatorial he appreciates such service, for with it go sympathy and a genuine desire to recognize the mutuality of interest inherent in the relations of employer and employe. While there is a return to the employer in such procedure, the advantage to the employe is relatively greater.

This system inculcates a better knowledge of hygiene and assists in developing a stronger and healthier people. It also decreases the amount of dependency which otherwise would fall upon state and municipal institutions. The practical test as to the wisdom of this plan has been made during the war period, in that those companies which follow approximately the course we have briefly outlined, found that their labor turnover was extremely moderate in the face of an enormous turnover where such measures were not adopted.

Then, too, some fifteen years ago, the process of creating a proprietary interest in the minds of the workers was carefully studied and definite plans for its realization were put into effect by many of the more advanced corporations of the country. The workers have been encouraged and assisted to acquire a stock interest in the employing company. In one company which has been called to our attention the employes own 30 per cent of the stock.

It is impossible, even if it were desirable, to go back to primitive methods of handwork, but it is desirable to retain the mental attitude which attended the workman who, in his own house, and working with his own tools, turned out a finished product from material purchased or produced by himself. The acquisition of shares of stock by the workman has been found to restore in some measure at least the mental attitude of the oldtime handworker. The foregoing plans were evolved gradually, just as all enduring steps of progress have been taken.

SHALL THE EXISTING SCALE OF WAGES BE MAINTAINED?

At this time no greater problem presents itself for solution than that of wages. We are face to face with the question of whether or not the existing scale of wages shall be maintained. The world has made a new appraisalment of its assets, and if I am not mistaken, the valuation of the individual will continue to be represented in larger terms. The revaluation of the individual has largely determined the new value of commodities.

Statistics will show to a nicety the value of our lands, our mines and our shops, but we would search long to find a rule for the appraisalment of the man power of the country. If the new valuation placed upon labor is maintained, the value of commodities must likewise remain on a higher level. The measure of inflation in commodity prices is not so great as it otherwise would seem.

Prior to the war, wages in this country as compared to those which were current in European countries were approximately 80 per cent to 100 per cent higher. The scale of wages now is approximately 50 per cent higher. If the United States could prosper and develop under the former condition of relative wages it would seem to be certain that it can likewise prosper under the present differential. This involves the assumption that the ingenuity and ability of American manufacturers can maintain the same superiority with respect to shop organization and mechanical methods to permit of an increased output per man, while it is certain that the supply of raw materials in the United States will continue to give this country an advantage over all others.

The largest corporation in the world has already announced a reduction in the price of its commodities with the assurance that it will not reduce wages. This, for the moment at least, reflects the attitude of large scale business throughout the country.

It is true that wages in certain special war work were abnormally inflated due to overtime, but such inflation can, without difficulty, be corrected by the abandonment of the overtime feature. Those industries which have operated on a conservative and permanent basis have on the average increased wages approximately 100 per cent, and it is this phase of the wage problem to which attention is now directed.

There never has been a time when the business men of the

United States were more favorably disposed towards a larger distribution of labor. Hence the sentiment is quite universal that the present level of wages should be maintained. Whether or not this can be accomplished depends upon a myriad of factors which it is beyond the purpose of this paper to discuss. In any event wages will not decline unless the desires and purposes of the business men of the country are defeated by conditions over which they have no control.

The whole world must increase production, earnings and savings in order to replace the dissipation of wealth incident to the war. One alternative is to spend less and to adopt a lower standard of living. The decisive element in the increased cost of living is not the greater price which must be paid for food, clothing, shelter and countless other things, but the higher standard of living which increased wages permit the worker to adopt. Consequently a reduction in wages means the lowering of the standard of living. That is why every well wisher for a better civilization desires the maintenance of the present scale of wages throughout the world, not only in the interest of those who receive such wages, but in the interest of society in general.

WORKING STANDARDS FOR PRESENT WAGE SCALE

It has been possible to pay wages to the rank and file of working men which permit them to enjoy many things not accessible to the worker of the old days, because of the great advance in mechanical inventions and the extension of scientific industrial management. In order further to increase the output per man and to permit the present scale of wages to be maintained, such scientific methods must be further developed along with additional investments in tools and machinery.

Capital must be provided to accomplish these progressive results and, therefore, care should be taken not unduly to curtail profits by taxation or by imposing other burdens which will render it impossible constantly to add to the productive equipment of the country.

In order to set a man at work he must be provided with shop equipment, power and proper housing conditions to permit him to use with greatest effect his physical strength and mental aptitude. The manufacturer must also safeguard the worker as to

health and surround him with those influences which will offer protection against mental and physical fatigue. Highly trained and sympathetic supervision must also be provided that a higher type of man may thereby be developed and his productive efficiency increased.

The eight-hour day has at last been sanctioned by England and by a large section of industrial America. The committee composed of statesmen, economists and manufacturers appointed by Parliament has declared, after a long and practical examination, that, under the auspices of the eight-hour day, a larger production per man for a period of twelve months can be effected. They testify that the aggregate of production will thereby be increased, while conserving the man power of the nation.

It has been ascertained that one hundred million dollars are required annually in England to find work for the natural increase in the population of that country. In this country a very much larger amount will be required for a similar purpose. It is important, therefore, to recognize the need to encourage the investment of capital in productive capacity. Obstructive and vexatious legislation is quite as injurious to labor as it is to capital. Legislation will encourage and not obstruct business if the attitude is affirmative rather than negative.

If capital invested in business cannot earn sufficient to pay reasonable dividends, with something in addition to cover the inevitable hazards of industry, it is obvious that money cannot be found to increase the shop capacity for greater production. Without such recognition to capital, it is a foregone conclusion that higher wages cannot permanently be maintained.

TAXATION AND INDUSTRIAL STABILITY

More than ever is it desirable to encourage, if not to compel by law, the setting aside of reserves to insure the integrity of inventories which are now threatened by fluctuations in prices to a greater extent than at any time within the memory of the present generation; this to warrant confidence in balance sheets for bankers and investors, and to give assurance and courage to industrial managers for the expansion of producing capacity. The profits of an industrial company are represented to a great extent by its inventory, not by cash in the bank. The cash item, as a

rule, represents but a small percentage when compared with the inventory item in the balance sheet. The failure of the bank to repay the cash deposit would prove a minor catastrophe compared to a sudden shrinkage in the value of the inventory, due to a decline in the market prices of the commodities included therein. The absence of a reserve to offset a shrinkage in the inventory values, at a time like this when economists predict and recommend a deflation of prices, constitutes a grave menace to the stability of our industrial situation.

Profits have been swollen by the arbitrary movement of prices upward, but practically all of these profits remaining over and above income and excess profits taxes are represented by inventories made up on the basis of increased commodity prices. It is obvious that the actual realization of such profits is dependent upon the sale of the merchandise at or above the values given in the inventories. Therefore, if, through the decline in prices, the inventory values representing these profits are depreciated, the manufacturer will suffer an unfair and irrevocable loss, inasmuch as he has contributed taxes to the government on the basis of anticipatory or paper profits.

The only protection against the disastrous effect of the deflation in prices lies in the practice of setting up a reserve to cover such a contingency. The present tax law discourages such conservative and necessary procedure. Congress should lend itself to a serious and solemn study of this question. The British Government permits and encourages such practice in the interest of a sound and stable post-war industrial condition. The French Government has not yet collected the excess profits taxes for the years 1916 and 1917 and has announced that such taxes will not become due and payable until after the war, this presumably in the interest of industrial stability. Shall the United States be less conservative and far-sighted in this respect?

The following illustration will enforce the point I am making:

<i>Inventory same tonnage or units</i>		
January 1, 1918	December 31, 1918	Abnormal profit due to price inflation
\$50,000 ²	\$100,000 ¹	\$50,000 ³
at actual cost	actual cost	

The \$50,000 abnormal profit was made in the process of selling at market prices those things which cost 50 per cent less—and as sales were made the stock, or inventory, was kept up to normal as regards units or tonnage, so that at the end of the year the actual cost thereof was \$100,000.¹

This in addition to normal trading profit = The latter profit subject to normal income tax.

The abnormal profit, \$50,000, subject to excess profit tax 80 per cent = \$40,000.⁴ Profit retained \$10,000.⁵

Now, if the deflation process reduces the market price to the level represented by the prices applied to the January 1 inventory² = the actual loss due to this arbitrary fluctuation would be \$50,000.

The arbitrary profit on the way up was \$50,000,³ \$40,000 of which was paid in taxes,⁴ hence the actual loss to the business would be \$50,000 less \$10,000⁵ = \$40,000, which sum, in all probability, would represent the increased line of credit extended by the bank, so that the capital of the business would be reduced below the pre-war status even if no profits were withdrawn as dividends or otherwise.

THE REMEDY

Deposit the 80 percent tax⁴ \$40,000, in federal reserve bank, ultimately to be paid the government if the inventory prices do not shrink, and if inventory prices do shrink, the payment to the government would be pro-rated in proportion thereto.

A careful examination of these questions always leads us back to the problem of wages. The prosperity and security of labor is involved to the same extent as capital in the proper adjustment of these vital matters. Inasmuch as the world of business is reconciled to and, in many cases, eager for the maintenance of the existing higher scale of wages, its realization is obviously dependent upon greater production and increased demand. If the economic adjustments can be made to warrant such expansion, the United States will enter upon an era of unprecedented business activity.

The war ridden countries of Europe are eager to purchase vast quantities of our raw materials and manufactured products. It

would seem necessary, therefore, at this juncture, for the United States to finance such purchases either through government loans or by private advances of capital. The government and people of the United States must face this problem with courage and understanding, for unless it is approached in an affirmative and sympathetic manner it will lessen the ability of those countries to pay interest on the loans already made—and necessarily to a large extent in commodities. We must buy if we would sell, and make new loans if we are to realize on those already made. Refusal so to do will menace not only the maintenance of the high scale of wages now current, but may delay for many years the reconstruction of business on a basis which will insure stable and far-reaching prosperity.

We have faith that the correct solution of these problems will be found because the people of the United States have not lowered their ideals, narrowed their vision, nor diminished their courage in this, the hour of victory.